

**REPORT OF THE AUDIT OF THE  
MARSHALL COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2006**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

The enclosed report prepared by Tichenor & Associates, LLP, Certified Public Accountants, presents the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Tichenor & Associates, LLP to perform the audit of these financial statements. We worked closely with the firm during our report review process; Tichenor & Associates, LLP evaluated the Marshall County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure



## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE MARSHALL COUNTY FISCAL COURT**

**June 30, 2006**

Tichenor & Associates, LLP has completed the audit of the Marshall County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion, based on our audit and the report of the other auditors, on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and aggregate remaining fund information of Marshall County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements that are applicable to Marshall County's major federal programs: Homeland Security Grant Program (CFDA #97.067), Tri-County Drug Task Force Program (CFDA #16.579), and Help America Vote Act (CFDA #90.401).

#### **Financial Condition:**

The fiscal court had total net assets of \$16,665,220 as of June 30, 2006. The fiscal court had unrestricted net assets of \$4,976,455 in its governmental funds as of June 30, 2006, with total net assets of \$16,569,849. In its business-type activities, total net cash and cash equivalents were \$95,371 with total net assets of \$95,371. The fiscal court's discretely presented component unit had net assets of \$1,824,671 as of June 30, 2006. The discretely presented component unit had net cash and cash equivalents of \$592,973. The fiscal court had total debt principal as of June 30, 2006 of \$7,178,869 with \$269,275 due within the next year.

#### **Deposits:**

The fiscal court and component units' deposits were insured and collateralized by bank securities or bonds.



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**TICHENOR & ASSOCIATES, LLP**  
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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Marshall County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Marshall County Refuse Disposal District, which represents 100% of the assets and revenues of the discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Marshall County Refuse Disposal District, is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Marshall County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based upon our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with the basis of accounting described in Note 1.

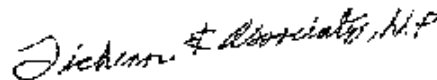
To the People of Kentucky  
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The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of the basis financial statements. The Budgetary Comparison Information is not a required part of the basis financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Marshall County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditure of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2006 on our consideration of Marshall County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name of the firm.

December 11, 2006

Tichenor & Associates, LLP

MARSHALL COUNTY OFFICIALS

For The Year Ended June 30, 2006

**Fiscal Court Members:**

Mike Miller	County Judge/Executive
Jerry English	Magistrate
Gordon Hargrove	Magistrate
Jerome Hicks	Magistrate

**Other Elected Officials:**

Jeff Edwards	County Attorney
Roger Ford	Jailer
Dan Duke	County Clerk
Carol Fisk	Circuit Court Clerk
Terry Anderson	Sheriff
Andy Hillman	Property Valuation Administrator
Mitchell Lee	Coroner

**Appointed Personnel:**

Tim York	County Treasurer
Angie Murphy	Occupational Tax Collector
Emily West	Finance Officer
Gary Atkins	Road Supervisor
Marsha Penny	911 Administrator
Lauri Ford	Jail Administrative Assistant/Bookkeeper

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**MARSHALL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**



**MARSHALL COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Primary Government</b>			<b>Component Unit</b>
	<b>Governmental</b>	<b>Business-Type</b>		<b>Marshall County</b>
	<b>Activities</b>	<b>Activities</b>	<b>Totals</b>	<b>Refuse Disposal</b>
				<b>District</b>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 5,476,524	\$ 95,371	\$ 5,571,895	\$ 592,973
Investments	677,734		677,734	
Total Current Assets	6,154,258	95,371	6,249,629	592,973
Noncurrent Assets:				
Notes Receivable	20,000		20,000	
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	1,983,109		1,983,109	805,287
Buildings	11,212,493		11,212,493	161,957
Vehicles and Equipment	2,207,557		2,207,557	1,036,651
Infrastructure Assets - Net of Depreciation	2,171,301		2,171,301	(751,401)
Total Noncurrent Assets	17,594,460		17,594,460	1,252,494
Total Assets	23,748,718	95,371	23,844,089	1,845,467
<b>LIABILITIES</b>				
Current Liabilities:				
Bonds Payable	265,000		265,000	
Financing Obligations	4,275		4,275	
Payroll Liabilities				20,796
Total Current Liabilities	269,275		269,275	20,796
Noncurrent Liabilities:				
Bonds Payable	6,835,000		6,835,000	
Financing Obligations	74,594		74,594	
Total Noncurrent Liabilities	6,909,594		6,909,594	
Total Liabilities	7,178,869		7,178,869	20,796
<b>NET ASSETS</b>				
Invested in Capital Assets, Net of Related Debt	10,395,591		10,395,591	1,252,494
Restricted For:				
Capital Projects	1,179,119		1,179,119	
Debt Service	18,684		18,684	
Unrestricted	4,976,455	95,371	5,071,826	572,177
Total Net Assets	\$ 16,569,849	\$ 95,371	\$ 16,665,220	\$ 1,824,671

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**

**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 5,291,398	\$ 366,457	\$ 501,079	\$ 413,435
Protection to Persons and Property	2,018,963	1,316,304		
General Health and Sanitation	175,747			
Social Services	854,863			
Recreation and Culture	557,052			
Roads	2,105,960	16,036	1,367,862	
Debt Service	389,972			
Capital Projects	75,000			
Total Governmental Activities	11,468,955	1,698,797	1,868,941	413,435
Business-type Activities:				
Jail Canteen	11,838	14,042		
Total Business-type Activities	11,838	14,042		
Total Primary Government	\$ 11,480,793	\$ 1,712,839	\$ 1,868,941	\$ 413,435
Component Unit:				
Marshall County Refuse Disposal District	\$ 1,791,646	\$	\$ 48,350	\$
Total Component Unit	\$ 1,791,646	\$ 0	\$ 48,350	\$ 0

**General Revenues:**

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Occupational Taxes

Excess Fees

Miscellaneous Revenues

Transfer from Fiscal Court

Interest Earned

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning (Restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**MARSHALL COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Totals	Marshall County Refuse Disposal District
\$ (4,010,427)	\$	\$ (4,010,427)	\$
(702,659)		(702,659)	
(175,747)		(175,747)	
(854,863)		(854,863)	
(557,052)		(557,052)	
(722,062)		(722,062)	
(389,972)		(389,972)	
(75,000)		(75,000)	
(7,487,782)		(7,487,782)	
	2,204	2,204	
	2,204	2,204	
(7,487,782)	2,204	(7,485,578)	
			\$ (1,743,296)
			\$ (1,743,296)
1,258,079		1,258,079	
170,638		170,638	
272,440		272,440	
1,946,804		1,946,804	1,426,569
3,704,094		3,704,094	
236,422		236,422	
984,973		984,973	11,374
			400,000
268,497	367	268,864	16,416
8,841,947	367	8,842,314	1,854,359
1,354,165	2,571	1,356,736	111,063
15,215,684	92,800	15,308,484	1,713,608
\$ 16,569,849	\$ 95,371	\$ 16,665,220	\$ 1,824,671

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Jail Fund</b>	<b>Occupational Tax Fund</b>	<b>Occupational Tax Administrator Fund</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 873,039	\$ 291,335	\$ 95,805	\$ 544,816	\$ 2,506,077
Investments					
Total Assets	<u>\$ 873,039</u>	<u>\$ 291,335</u>	<u>\$ 95,805</u>	<u>\$ 544,816</u>	<u>\$ 2,506,077</u>
<b>FUND BALANCES</b>					
Reserved for:					
Encumbrances	\$ 28,068	\$ 673	\$ 13,085	\$ 133	\$
Unreserved:					
General Fund	844,971				
Special Revenue Funds		290,662	82,720	544,683	2,506,077
Capital Projects Fund					
Debt Service Fund					
Total Fund Balances	<u>\$ 873,039</u>	<u>\$ 291,335</u>	<u>\$ 95,805</u>	<u>\$ 544,816</u>	<u>\$ 2,506,077</u>

**MARSHALL COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**June 30, 2006**  
**(Continued)**

<b>Public Properties Corporation Justice Center Debt Service Fund</b>	<b>Public Properties Corporation Justice Center Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$	\$ 520,069	\$ 645,383	\$ 5,476,524
18,684	659,050		677,734
<u>\$ 18,684</u>	<u>\$ 1,179,119</u>	<u>\$ 645,383</u>	<u>\$ 6,154,258</u>

\$	\$	\$ 160	\$ 42,119
			844,971
		645,223	4,069,365
	1,179,119		1,179,119
<u>18,684</u>			<u>18,684</u>
<u>\$ 18,684</u>	<u>\$ 1,179,119</u>	<u>\$ 645,383</u>	<u>\$ 6,154,258</u>

**Reconciliation Of The Balance Sheet-Governmental Funds To The Statement Of Net Assets:**

Total Fund Balances	\$ 6,154,258
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used In Governmental Activities Are Not Financial Resources And Therefore Are Not Reported In The Funds.	23,837,741
Accumulated Depreciation	(6,263,281)
Notes Receivable	20,000
Long-term Debt Is Not Due And Payable In The Current Period And, Therefore, Is Not Reported In The Funds.	
Financing Obligations	(78,869)
Bonded Debt	<u>(7,100,000)</u>
Net Assets Of Governmental Activities	<u>\$ 16,569,849</u>

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**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>General Fund</b>	<b>Road And Bridge Fund</b>	<b>Jail Fund</b>	<b>Occupational Tax Fund</b>
<b>REVENUES</b>				
Taxes	\$ 2,603,539	\$	\$	\$
In Lieu Tax Payments	526,124			
Excess Fees	236,422			
Licenses and Permits	127,969			
Intergovernmental	871,431	1,590,553	1,294,379	
Charges for Services	366,457	16,036	21,925	
Miscellaneous	277,146	3,764	29,716	
Interest	46,144	22,351	8,730	14,342
Total Revenues	<u>5,055,232</u>	<u>1,632,704</u>	<u>1,354,750</u>	<u>14,342</u>
<b>EXPENDITURES</b>				
General Government	2,256,728			
Protection to Persons and Property	623,387		1,171,540	
General Health and Sanitation	138,974			36,773
Social Services	475,763			400,000
Recreation and Culture	20,552			516,058
Roads		1,526,967		1,226,129
Debt Service	18,196			
Capital Projects	75,000			
Administration	2,379,240	174,002	221,597	46,436
Total Expenditures	<u>5,987,840</u>	<u>1,700,969</u>	<u>1,393,137</u>	<u>2,225,396</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(932,608)</u>	<u>(68,265)</u>	<u>(38,387)</u>	<u>(2,211,054)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers From Other Funds	900,000			2,500,000
Transfers To Other Funds	(108,419)			
Total Other Financing Sources (Uses)	<u>791,581</u>			<u>2,500,000</u>
Net Change in Fund Balances	(141,027)	(68,265)	(38,387)	288,946
Fund Balances - Beginning (Restated)	1,014,066	359,600	134,192	255,870
Fund Balances - Ending	<u>\$ 873,039</u>	<u>\$ 291,335</u>	<u>\$ 95,805</u>	<u>\$ 544,816</u>

The accompanying notes are an integral part of the financial statements.

**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>Occupational Tax Administrator Fund</b>	<b>Public Properties Corporation Justice Center Debt Service Fund</b>	<b>Public Properties Corporation Justice Center Capital Projects Fund</b>	<b>Non- Major Funds</b>	<b>Total Governmental Funds</b>
\$ 3,704,094	\$	\$	\$ 295,607	\$ 6,603,240
				526,124
				236,422
				127,969
	413,437		165,151	4,334,951
				404,418
134			10,739	321,499
98,276	540	57,675	20,439	268,497
<u>3,802,504</u>	<u>413,977</u>	<u>57,675</u>	<u>491,936</u>	<u>12,823,120</u>
230,728				2,487,456
			378,208	2,173,135
				175,747
				875,763
				536,610
			1,675	2,754,771
	630,612			648,808
				75,000
	2,000		83,603	2,906,878
<u>230,728</u>	<u>632,612</u>		<u>463,486</u>	<u>12,634,168</u>
<u>3,571,776</u>	<u>(218,635)</u>	<u>57,675</u>	<u>28,450</u>	<u>188,952</u>
	202,491	108,419		3,710,910
<u>(3,400,000)</u>		<u>(202,491)</u>		<u>(3,710,910)</u>
<u>(3,400,000)</u>	<u>202,491</u>	<u>(94,072)</u>		
171,776	(16,144)	(36,397)	28,450	188,952
2,334,301	34,828	1,215,516	616,933	5,965,306
<u>\$ 2,506,077</u>	<u>\$ 18,684</u>	<u>\$ 1,179,119</u>	<u>\$ 645,383</u>	<u>\$ 6,154,258</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MARSHALL COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

**Reconciliation Of The Statement of Revenues, Expenditures, and Changes  
In Fund Balance-Governmental Funds To The Statement of Activities:**

Net Change in Fund Balances - Total Governmental Funds	\$ 188,952
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.	
Assets disposed of, net book value	(43,714)
Capital Outlay	1,822,585
Depreciation Expense	(870,494)
Notes Receivable principal received are receipted in the Governmental Funds as source of current financial resources. These transaction have no effect on net assets.	(2,000)
Financing obligations and bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions have no effect on net assets.	
Financing Obligations	13,836
Bond Payments	245,000
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,354,165</u></u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**



**MARSHALL COUNTY**  
**STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Assets</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 95,371
Total Current Assets	<u>\$ 95,371</u>
<b>Net Assets</b>	
Unrestricted	\$ 95,371
Total Net Assets	<u>\$ 95,371</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MARSHALL COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Operating Revenues</b>	
Canteen Receipts	\$ 14,042
Total Operating Revenues	<u>14,042</u>
<b>Operating Expenses</b>	
Cost of Sales	<u>11,838</u>
Total Operating Expenses	<u>11,838</u>
Operating Income	<u>2,204</u>
<b>Nonoperating Revenues (Expenses)</b>	
Interest Income	<u>367</u>
Total Nonoperating Revenues	<u>367</u>
Change In Net Assets	2,571
Total Net Assets - Beginning	<u>92,800</u>
Total Net Assets - Ending	<u><u>\$ 95,371</u></u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**



**MARSHALL COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2006**

	<b>Business-Type Activities - Enterprise Fund</b>
	<b>Jail Canteen Fund</b>
<b>Cash Flows From Operating Activities</b>	
Canteen Commissions	\$ 14,042
Cost of Sales	<u>(11,838)</u>
Net Cash Provided By Operating Activities	<u>2,204</u>
<b>Cash Flows From Investing Activities</b>	
Interest Earned	<u>367</u>
Net Cash Provided By Investing Activities	<u>367</u>
Net Increase in Cash and Cash Equivalents	2,571
Cash and Cash Equivalents - July 1, 2005	<u>92,800</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 95,371</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</b>	
Operating Income	<u>\$ 2,204</u>
Net Cash Provided By Operating Activities	<u><u>\$ 2,204</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term liabilities are recorded on the statement of net assets and include bonds and financing obligations. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Marshall County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Unit (Continued)

Marshall County Public Properties Corporation

The Marshall County Fiscal Court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation. Financial information for the Public Corporation is blended with Marshall County's financial statements.

Discretely Presented Component Units

The component unit's columns in the combined financial statements include the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize the organization's separateness from the fiscal court's primary government.

Marshall County Refuse Disposal District

The Marshall County Fiscal Court appoints a voting majority of the Marshall County Refuse Disposal District governing board. The fiscal court is financially accountable and legally obligated for the debt of the refuse district. Financial information for the refuse district is presented discretely within Marshall County's financial statements.

Audited financial statements for the Marshall County Refuse Disposal District, a discretely presented component unit, may be requested by contacting the Marshall County Treasurer, 1101 Main Street, P.O. Box 114, Benton, Kentucky 42025.

**C. Marshall County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Marshall County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Marshall County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road and Bridge Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Governmental Funds (Continued)**

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Occupational Tax Fund - The primary purpose of this fund is to account for the disbursement of occupational tax funds. The primary source of revenue for this fund is transfers from the Occupational Tax Administrator Fund.

Occupational Tax Administrator Fund - This fund is used to account for occupational tax receipts. Occupational tax revenues are recorded in this fund and then transferred to the Occupational Tax Fund.

Public Properties Corporation Justice Center Debt Service Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Public Properties Corporation, a blended component unit of the fiscal court.

Public Properties Corporation Justice Center Capital Projects Fund - The purpose of this fund is to account for the construction activities of the Public Properties Corporation, a blended component unit of the fiscal court.

The primary government also has the following non-major funds: Federal Grant Fund, Emergency 911 Fund, Wireless 911 Fund, and Veterans Van Fund which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3<sup>rd</sup> Saturday in April following the delinquency date.

**Proprietary Funds**

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services and administrative expenses. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 30, 1989, unless Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.



**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

**Proprietary Funds (Continued)**

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term-debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Public Properties Corporation Justice Center Debt Service and Public Properties Corporation Justice Center Capital Projects Fund are not budgeted. The Governor's Office for Local Development does not require the Fiscal Court to report or budget these funds.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**J. Related Organizations, Joint Venture, and Jointly Governed Organizations**

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Marshall County Fiscal Court: Marshall County Hospital, Jonathan Creek Water District, Aurora Sewer District, Marshall County Library, North Marshall Water District, Draffenville Sewer District, and Marshall County Cemetery Board.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of the Marshall County Fiscal Court: Purchase Area Industrial Authority Incorporated; Marshall County-Calvert City Riverport Authority; and Industrial Development Authority.

**Note 2. Deposits and Investments**

**A. Deposits**

The primary government and component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits of the primary government and component units were covered by FDIC insurance or a properly executed collateral security agreement.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 2. Deposits and Investments (Continued)**

**B. Investments**

As of June 30, 2006, the County had the following investments:

Investments	Maturity	Fair Value (Cost)
Money Market Accounts	Greater than 90 days	\$ 677,734

**Interest Rate Risk.** The County does not have a formal investment policy that limits its investment maturities as a means of managing its exposure to losses arising from changes in interest rates. In general, money market accounts are not subject to interest rate risk.

**Credit Risk.** KRS 66.480 limits the County's investments in the following: obligations of the United States and of its agencies and instrumentalities, including obligations subject to repurchase agreements, obligations and contracts for future delivery or purchase of obligations backed by the United States or its agencies and obligations of any corporation of the United States Government. Certificates of Deposit issued by or other interest-bearing accounts of any bank or savings and loan institution insured by the Federal Deposit Insurance Corporation or similar entity. Uncollateralized certificates of deposit issued by any bank or savings and loan institution rated in one of the three highest categories by a nationally recognized rating agency. Bankers acceptances for banks rate in one of the three highest categories by a nationally recognized rating agency. Commercial paper rated in the highest category by a nationally recognized rating agency. Bonds or certificates of indebtedness of this state and of its agencies and instrumentalities. Securities issued by a state or local government, or any instrumentality of agency thereof, in the United States and rated in one of the three highest categories by a nationally recognized rating agency. Shares of mutual funds meeting specific characteristics outlined in the statute shall be eligible investments. Also, the County is limited to investing no more than 20% in any one of four specifically named investments as allowed by KRS 66.480. The County had no investment policy that would further limit its investment choices. In general, money market accounts are not subject to investment credit risk or concentration of credit risk.

**Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the county will not be able to recover the value of its investments held in the possession of an outside party. The County does not have an investment policy for custodial credit risk. As of June 30, 2006, the County's investments are insured or registered or the securities are held by the County or the County's agent in the County's name.

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Primary Government:</b>				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,907,400	\$ 75,709	\$	\$ 1,983,109
Total Capital Assets Not Being Depreciated	1,907,400	75,709		1,983,109
Capital Assets, Being Depreciated:				
Buildings	14,081,714	101,027		14,182,741
Vehicles and Equipment	4,258,788	810,197	(127,500)	4,941,485
Infrastructure	1,894,754	835,652		2,730,406
Total Capital Assets Being Depreciated	20,235,256	1,746,876	(127,500)	21,854,632
Less Accumulated Depreciation For:				
Buildings	(2,734,468)	(235,780)		(2,970,248)
Vehicles and Equipment	(2,448,918)	(368,796)	83,786	(2,733,928)
Infrastructure	(293,187)	(265,918)		(559,105)
Total Accumulated Depreciation	(5,476,573)	(870,494)	83,786	(6,263,281)
Total Capital Assets, Being Depreciated, Net	14,758,683	876,382	(43,714)	15,591,351
Governmental Activities Capital Assets, Net	\$ 16,666,083	\$ 952,091	\$ (43,714)	\$ 17,574,460

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 225,355
Protection to Persons and Property	163,007
Recreation and Culture	32,998
Roads, Including Depreciation of General Infrastructure Assets	<u>449,134</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 870,494</u>

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Capital asset activity for the discretely presented component unit for the year ended June 30, 2006 was as follows:

<b>Discretely presented major component unit:</b>	<b>Reporting Entity</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	
Capital Assets, Being Depreciated:				
Land and Land Improvements	805,287			805,287
Buildings	161,957			161,957
Vehicles and Equipment	1,020,751	20,900	(5,000)	1,036,651
Total Capital Assets Being Depreciated	1,987,995	20,900	(5,000)	2,003,895
Less Accumulated Depreciation For:				
Land and Land Improvements	(114,793)	(19,132)		(133,925)
Buildings	(32,724)	(3,014)		(35,738)
Vehicles and Equipment	(510,030)	(73,637)	1,929	(581,738)
Total Accumulated Depreciation	(657,547)	(95,783)	1,929	(751,401)
Capital Assets, Net	<u>\$ 1,330,448</u>	<u>\$ (74,883)</u>	<u>\$ (3,071)</u>	<u>\$ 1,252,494</u>

Depreciation expense was charged to functions of the discretely presented component unit as follows:

Marshall County Refuse Disposal District	<u>\$ 95,783</u>
Total Depreciation Expense - Discretely Presented Component Unit	<u>\$ 95,783</u>

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt**

**A. First Mortgage Revenue Bonds, Series 2000**

The Marshall County Public Properties Corporation entered into a bond issue on October 1, 2000, for the purpose of paying the cost of constructing a new county justice center facility and the cost of the issuance of the bonds. The issue amount of the bonds was \$8,005,000. The bonds will mature beginning March 1, 2003. The Administrative Office of the Courts (AOC) will be responsible for 74 percent of the cost of the bonds. The Public Properties Corporation will be responsible for the remaining balance of the cost. The outstanding balance as of June 30, 2006, was \$7,100,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 265,000	\$ 372,750
2008	275,000	358,837
2009	285,000	344,400
2010	300,000	329,437
2011	325,000	313,687
2012-2016	1,905,000	1,294,125
2017-2021	2,525,000	732,904
2022-2023	1,220,000	96,862
Totals	<u>\$ 7,100,000</u>	<u>\$ 3,843,002</u>

**B. Marshall County Caring/Needline Building**

On July 3, 2002, Marshall County Fiscal Court entered into a promissory note agreement with the Bank of Benton for the purchase of an office building. The principal amount was \$114,200 at an effective interest rate of 6.5 percent for a period of twenty years. In return, Marshall County leased the building to the Marshall County Caring/Needline. After an initial payment of \$50,000, which was used as a down payment on the purchase of the property, the Marshall County Caring/Needline has agreed to pay Marshall County Fiscal Court rental payments in amounts equal to the annual loan payments as stipulated in a lease agreement dated July 3, 2002. Upon the retirement of the debt, Marshall County Fiscal Court agrees to transfer the property to the Marshall County Caring/Needline. The outstanding balance of the note as of June 30, 2006 was \$78,869. Future principal and interest requirements are:

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**B. Marshall County Caring/Needline Building (Continued)**

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2007	\$ 4,275	\$ 5,168
2008	4,556	5,886
2009	4,857	5,586
2010	5,162	5,280
2011	5,517	4,926
2012-2016	33,530	18,704
2017-2022	20,972	6,074
Totals	<u>\$ 78,869</u>	<u>\$ 51,624</u>

**C. Changes In Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Primary Government:</b>					
<u>Governmental Activities:</u>					
Revenue Bonds (Note 5A)	\$ 7,345,000	\$	\$ 245,000	\$ 7,100,000	\$ 265,000
Financing Obligations (Note 5B)	92,705		13,836	78,869	4,275
Governmental Activities					
Long-term Liabilities	<u>\$ 7,437,705</u>	<u>\$ 0</u>	<u>\$ 258,836</u>	<u>\$ 7,178,869</u>	<u>\$ 269,275</u>

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$4,360 in interest on financing obligations and \$385,612 in interest on bonds and notes.

**Note 6. Receivables**

**A. Elva/New Harmony/Oak Level Fire District**

The County loaned \$30,000 to the Elva/New Harmony/Oak Level Fire District on July 21, 1999, for the purpose of renovating the Fire Department. Terms of the agreement stipulate a 12-year repayment schedule, interest free. The Fire District is in substantial compliance with the terms of the agreement. As of June 30, 2006, the principal balance due was \$20,000.

**Note 7. Related Party Transactions**



**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

**A. Timber Bridge Company**

During the fiscal year, the County conducted business with the Timber Bridge Company of Kentucky for bridge materials. In November 2004, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he was employed as a salesman for Timber Bridge, and earned in excess of \$5,000 during the preceding calendar year. A letter dated August 17, 2001, from Timber Bridge Company of Kentucky, confirming its ongoing agreement with the County Judge/Executive, states that the County Judge/Executive is not due any commissions on sales in Marshall County. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

**B. Bank of Benton**

During the fiscal year, the County maintained deposits with the Bank of Benton. In November 2004, the County Judge/Executive filed a Statement of Financial Disclosure with the Marshall County Ethics Commission stating that he owned an interest of at least \$10,000 in the Bank of Benton, and earned in excess of \$5,000 during the preceding calendar year from this interest. The County Attorney reviewed this matter and did not believe that it violated the Marshall County Ethics Code.

**Note 8. Employee Retirement System**

The fiscal court and the Marshall County Refuse Disposal District, a discretely presented component unit, have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 9. Insurance**

For the fiscal year ended June 30, 2006, Marshall County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Landfill Closure and Post-closure Costs**

**MARSHALL COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2006**  
**(Continued)**

In 2002, the legislature passed House Bill No. 174 that among other things, provided for state assumption of responsibility for the costs of closure and remedial obligations for inactive solid waste landfills that ceased accepting waste prior to July 1, 1992. This is implemented as amendments to KRS 244, Subchapter 43. The Kentucky Division of Waste Management (Division) has determined that the Marshall County Landfill qualifies under this program for state assistance. However, as a necessary condition for performing this work, the Division required a legal right of entry granting permission for assessment and construction activities on the subject property. On February 8, 2005, the Marshall County Judge/Executive signed the right of entry to the Commonwealth of Kentucky and it's authorized agents the right to enter upon this land for the purpose of performing such activities.

**Note 11. Prior Period Adjustments**

The net assets of governmental activities were restated by \$2,875 for prior year voided checks. The General Fund, Occupational Tax Fund and Occupational Tax Administrator Fund have also been restated by \$1,727, \$991, and \$158, respectively for prior year voided checks and for a \$1 correction of an immaterial error.

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**



**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**

	<b>GENERAL FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 2,262,500	\$ 2,262,500	\$ 2,603,539	\$ 341,039
In Lieu Tax Payments	442,500	442,500	526,124	83,624
Excess Fees	137,701	137,701	236,422	98,721
Licenses and Permits	85,000	85,000	127,969	42,969
Intergovernmental	651,400	651,400	871,431	220,031
Charges For Services	320,000	320,000	366,457	46,457
Miscellaneous	124,644	124,644	277,146	152,502
Interest	10,000	10,000	46,144	36,144
Total Revenues	<u>4,033,745</u>	<u>4,033,745</u>	<u>5,055,232</u>	<u>1,021,487</u>
<b>EXPENDITURES</b>				
General Government	2,333,695	2,534,195	2,256,728	277,467
Protection To Persons and Property	430,500	637,000	623,387	13,613
General Health and Sanitation	107,700	149,900	138,974	10,926
Social Services	415,900	498,300	475,763	22,537
Recreation and Culture	11,450	21,150	20,552	598
Debt Service	109,000	109,000	18,196	90,804
Capital Projects	80,000	80,000	75,000	5,000
Administration	2,245,500	2,396,000	2,379,240	16,760
Total Expenditures	<u>5,733,745</u>	<u>6,425,545</u>	<u>5,987,840</u>	<u>437,705</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,700,000)</u>	<u>(2,391,800)</u>	<u>(932,608)</u>	<u>1,459,192</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds			(108,419)	(108,419)
Transfers From Other Funds	<u>800,000</u>	<u>800,000</u>	<u>900,000</u>	<u>100,000</u>
Total Other Financing Sources (Uses)	<u>800,000</u>	<u>800,000</u>	<u>791,581</u>	<u>(8,419)</u>
Net Changes In Fund Balance	(900,000)	(1,591,800)	(141,027)	1,450,773
Fund Balance - Beginning (Restated)	<u>900,000</u>	<u>900,000</u>	<u>1,014,066</u>	<u>114,066</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (691,800)</u>	<u>\$ 873,039</u>	<u>\$ 1,564,839</u>

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>ROAD AND BRIDGE FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,016,950	\$ 1,016,950	\$ 1,590,553	\$ 573,603
Charges For Services	14,000	14,000	16,036	2,036
Miscellaneous	8,050	8,050	3,764	(4,286)
Interest	6,000	6,000	22,351	16,351
Total Revenues	<u>1,045,000</u>	<u>1,045,000</u>	<u>1,632,704</u>	<u>587,704</u>
<b>EXPENDITURES</b>				
Roads	1,010,200	1,555,300	1,526,967	28,333
Administration	184,800	184,800	174,002	10,798
Total Expenditures	<u>1,195,000</u>	<u>1,740,100</u>	<u>1,700,969</u>	<u>39,131</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(150,000)</u>	<u>(695,100)</u>	<u>(68,265)</u>	<u>626,835</u>
Net Changes In Fund Balance	(150,000)	(695,100)	(68,265)	626,835
Fund Balance - Beginning	<u>150,000</u>	<u>150,000</u>	<u>359,600</u>	<u>209,600</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (545,100)</u>	<u>\$ 291,335</u>	<u>\$ 836,435</u>

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>JAIL FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Intergovernmental	\$ 1,005,500	\$ 1,005,500	\$ 1,294,379	\$ 288,879
Charges For Services	20,000	20,000	21,925	1,925
Miscellaneous	45,000	45,000	29,716	(15,284)
Interest	2,500	2,500	8,730	6,230
Total Revenues	<u>1,073,000</u>	<u>1,073,000</u>	<u>1,354,750</u>	<u>281,750</u>
<b>EXPENDITURES</b>				
Protection To Persons and Property	1,169,000	1,218,400	1,171,540	46,860
Administration	204,000	225,000	221,597	3,403
Total Expenditures	<u>1,373,000</u>	<u>1,443,400</u>	<u>1,393,137</u>	<u>50,263</u>
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(300,000)</u>	<u>(370,400)</u>	<u>(38,387)</u>	<u>332,013</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	<u>100,000</u>	<u>100,000</u>		<u>(100,000)</u>
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>100,000</u>		<u>(100,000)</u>
Net Changes In Fund Balance	(200,000)	(270,400)	(38,387)	232,013
Fund Balance - Beginning	<u>200,000</u>	<u>200,000</u>	<u>134,192</u>	<u>(65,808)</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ (70,400)</u>	<u>\$ 95,805</u>	<u>\$ 166,205</u>

**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>OCCUPATIONAL TAX FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Interest	\$ 5,000	\$ 5,000	\$ 14,342	\$ 9,342
Total Revenues	5,000	5,000	14,342	9,342
<b>EXPENDITURES</b>				
General Government	44,400	45,800	36,773	9,027
General Health and Sanitation	400,000	400,000	400,000	
Recreation and Culture	466,200	556,900	516,058	40,842
Roads	1,831,000	1,413,200	1,226,129	187,071
Administration	63,400	63,400	46,436	16,964
Total Expenditures	2,805,000	2,479,300	2,225,396	253,904
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,800,000)	(2,474,300)	(2,211,054)	263,246
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers From Other Funds	2,500,000	2,500,000	2,500,000	
Total Other Financing Sources (Uses)	2,500,000	2,500,000	2,500,000	
Net Changes In Fund Balances	(300,000)	25,700	288,946	263,246
Fund Balances - Beginning (Restated)	300,000	300,000	255,870	(44,130)
Fund Balances - Ending	\$ 0	\$ 325,700	\$ 544,816	\$ 219,116



**MARSHALL COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2006**  
**(Continued)**

<b>OCCUPATIONAL TAX ADMINISTRATOR FUND</b>				
	<b>Budgeted Amounts</b>		<b>Actual Amounts, (Budgetary Basis)</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Taxes	\$ 3,400,000	\$ 3,400,000	\$ 3,704,094	\$ 304,094
Miscellaneous			134	134
Interest	10,000	10,000	98,276	88,276
Total Revenues	3,410,000	3,410,000	3,802,504	392,504
<b>EXPENDITURES</b>				
General Government		231,000	230,728	272
Administration	1,000,000			
Total Expenditures	1,000,000	231,000	230,728	272
Excess (Deficiency) Of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,410,000	3,179,000	3,571,776	392,776
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers To Other Funds	(3,400,000)	(3,400,000)	(3,400,000)	
Total Other Financing Sources (Uses)	(3,400,000)	(3,400,000)	(3,400,000)	
Net Changes In Fund Balances	(990,000)	(221,000)	171,776	392,776
Fund Balances - Beginning (Restated)	990,000	990,000	2,334,301	1,344,301
Fund Balances - Ending	\$ 0	\$ 769,000	\$ 2,506,077	\$ 1,737,077

**MARSHALL COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2006**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**MARSHALL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**



**MARSHALL COUNTY**  
**COMBINING BALANCE SHEET -**  
**NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2006**

	<b>Federal Grant Fund</b>	<b>Emergency 911 Fund</b>	<b>Wireless 911 Fund</b>	<b>Veterans Van Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 315,775	\$ 106,773	\$ 218,610	\$ 4,225	\$ 645,383
Total Assets	<u>\$ 315,775</u>	<u>\$ 106,773</u>	<u>\$ 218,610</u>	<u>\$ 4,225</u>	<u>\$ 645,383</u>
<b>FUND BALANCES</b>					
Unreserved:					
Special Revenue Funds	\$ 315,775	\$ 106,773	\$ 218,610	\$ 4,225	\$ 645,383
Total Fund Balances	<u>\$ 315,775</u>	<u>\$ 106,773</u>	<u>\$ 218,610</u>	<u>\$ 4,225</u>	<u>\$ 645,383</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**





**MARSHALL COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2006**

	<b>Federal Grant Fund</b>	<b>Emergency 911 Fund</b>	<b>Wireless 911 Fund</b>	<b>Veteran's Van Fund</b>	<b>Total Non-Major Governmental Funds</b>
<b>REVENUES</b>					
Taxes	\$	\$ 295,607	\$	\$	\$ 295,607
Intergovernmental			165,151		165,151
Miscellaneous		4,839		5,900	10,739
Interest	8,586	11,853			20,439
Total Revenues	<u>8,586</u>	<u>312,299</u>	<u>165,151</u>	<u>5,900</u>	<u>491,936</u>
<b>EXPENDITURES</b>					
Protection to Persons and Property		314,600	63,608		378,208
Roads				1,675	1,675
Administration		83,603			83,603
Total Expenditures		<u>398,203</u>	<u>63,608</u>	<u>1,675</u>	<u>463,486</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>8,586</u>	<u>(85,904)</u>	<u>101,543</u>	<u>4,225</u>	<u>28,450</u>
Net Change in Fund Balances	8,586	(85,904)	101,543	4,225	28,450
Fund Balances - Beginning (Restated)	307,189	192,677	117,067		616,933
Fund Balances - Ending	<u>\$ 315,775</u>	<u>\$ 106,773</u>	<u>\$ 218,610</u>	<u>\$ 4,225</u>	<u>\$ 645,383</u>

The accompanying notes are an integral part of the financial statements.

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**MARSHALL COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**For The Year Ended June 30, 2006**



**MARSHALL COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Fiscal Year Ended June 30, 2006**

**SUMMARY OF AUDIT RESULTS**

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Marshall County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards program are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards program for Marshall County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards program for Marshall County reported in Part C of this schedule.
7. Programs tested as a major program were the Homeland Security Grant Program (CFDA# 97.067), Edward Byrne Memorial Formula Grant Program (CFDA# 16.579), and Help America Vote Act (CFDA# 90.401).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Marshall County was not determined to be a low-risk auditee.

**B. CURRENT FINDINGS – FINANCIAL STATEMENT AUDIT**

None.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT**

None.

**D. PRIOR YEAR FINDINGS – FINANCIAL STATEMENT AUDIT**

The following comments were corrected:

- Health Insurance Expenditures Totaling \$29,839 Were Improperly Paid On Behalf Of Employees
- Reimbursement Was Paid To A Magistrate In Excess Of Fiscal Court Policy
- Bank Accounts Were Improperly Listed Under The County's Federal Identification Number

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**MARSHALL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL COSTS**  
**For The Year Ended June 30, 2006**





**MARSHALL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**

**Fiscal Year Ended June 30, 2006**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Homeland Security</u>		
Passed-Through Kentucky Office of Homeland Security:		
Homeland Security Grant Program		
EOP Update Planning and Preparedness (CFDA # 97.004)	M-04647883	\$ 2,500
Citizen Corp. (CFDA # 97.004)	M-04608953	6,294
CERT (CFDA # 97.004)	M-04608902	1,667
Homeland Security Equipment (CFDA # 97.004)	M-04598979	82,498
Emergency Mgt. Performance Grant		
Director's Salary (CFDA # 97.042)	M-05029993	6,180
Disaster Grants Public Assistance Program		
Public Assistance DR 1578 (CFDA # 97.036)	M-05115488	36,699
Homeland Security Grant Program		
Homeland Security Interoperable Comm. (CFDA # 97.067)	M-05321614	<u>100,000</u>
Total U.S. Department of Homeland Security		\$ 235,838
<u>U.S. Department of Transportation</u>		
Passed-Through Kentucky Division of Emergency Management		
Interagency Hazardous Materials Public Sector Training and Planning Grants		
Cargo Tank Emergency Response (CFDA # 20.703)	M-05463113	6,800
<u>U.S. Department of Justice</u>		
Passed-Through Kentucky Justice and Public Safety Cabinet		
Edward Byrne Memorial Formula Grant Program		
Byrne Grant	7056-N2-6/04	132,768

**MARSHALL COUNTY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2006**  
**(Continued)**

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>Delta Regional Authority</u>		
Delta Area Economic Development (CFDA # 90.201)	N/A	75,000
<u>U.S. Election Assistance Commission</u>		
Passed-Through Kentucky State Board of Elections		
Help America Vote Act Requirements Payments (CFDA # 90.401)	MA05186922	129,879
	MA05184611	15,280
	MA05187961	9,925
Total U.S. Election Assistance Commission		<u>155,084</u>
Total Expenditures of Federal Awards		<u>\$ 605,490</u>

**MARSHALL COUNTY**  
**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Other Supplementary Information**  
**Fiscal Year Ended June 30, 2006**

Note 1- The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Marshall County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profits Organizations.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



# **TICHENOR & ASSOCIATES, LLP**

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E-MAIL: wtichenor@tichenorassociates.com

The Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

## **Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of The Financial Statements Performed In Accordance With Government Auditing Standards**

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Marshall County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated December 11, 2006. Our report was modified to include a reference to other auditors. Marshall County presents its financial statements on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Marshall County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in the amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

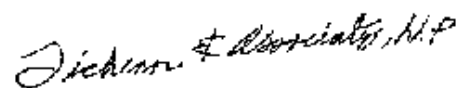
### **Compliance And Other Matters**

As part of obtaining reasonable assurance about whether Marshall County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Tichenor & Associates, LLP". The signature is written in a cursive, flowing style.

December 11, 2006

Tichenor & Associates, LLP



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



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The Honorable Mike Miller, Marshall County Judge/Executive  
Members of the Marshall County Fiscal Court

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Marshall County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Marshall County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Marshall County's management. Our responsibility is to express an opinion on Marshall County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Marshall County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Marshall County's compliance with those requirements.

In our opinion, Marshall County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

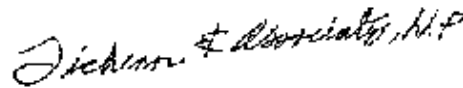
The management of Marshall County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Marshall County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Report On Compliance With Requirements  
Applicable To Each Major Program And On Internal Control  
Over Compliance In Accordance With OMB Circular A-133  
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Tichenor & Associates, LLP", is written over the printed name of the firm.

December 11, 2006

Tichenor & Associates, LLP

